

Message Text

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EXDIS

E.O. 11652:GDS

TAGS: EAID, EFIN, EG

SUBJECT: AID TO EGYPT

REF: CAIRO 10912; CAIRO 10966

1. IMF MIDDLE EAST DEPARTMENT HEAD JOHN GUNTER CALLED DEPARTMENT OFFICER TO CONCERT EFFORTS WITH USG ON RELIEF OF EGYPT'S MOUNTING BALANCE OF PAYMENTS PROBLEM. GUNTER SUMMARIZED DICKIE'S REPORTS ON RETURN FROM CAIRO AS EXTREMELY PESSIMISTIC, INDICATING THAT WIDE-SPREAD EGYPTIAN DEFAULT ON BOTH OFFICIAL SUPPLIER CREDITS AND COMMERCIAL BANK OBLIGATIONS MAY BE UNAVOIDABLE IF MAJOR RELIEF IS NOT OBTAINED DURING AUGUST-SEPTEMBER. DICKIE BELIEVED BOTH SHAFEI AND ABU ISMAIL NOW RECOGNIZE THAT LONG PREDICTED CRISIS IS IMMINENT,-YET THEY CONTINUE TO TEMPORIZE OTHER THAN THUS FAR FUTILE EFFORTS TO GET ARAB CASH AID FROM, OR IN ADDITION TO, THE PROSPECTIVE GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (GODE).

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2. GUNTER SAID HE HAD RECEIVED A RESPONSE FROM SAUDI FINANCE MINISTER ABA AL-KHAYL TO GUNTER'S ADVISORY NOTE TO INTERESTED GOVERNMENTS ON THE DELAY IN GOE EXECUTION OF THE IMF STABILIZATION PROGRAM. ABA AL-KHAYL STRESSED THE IMPORTANCE OF EGYPT'S ADOPTING THE IMF REFORM MEASURES AND ASKED TO BE KEPT INFORMED ON THIS MATTER. GUNTER FEARS THAT SAUDI AND OTHER GODE CONTRIBUTORS WILL REFUSE TO PROVIDE BILATERAL AID OUTSIDE THE RESTRICTED GODE CHANNELS, DESPITE ABU ISMAIL'S EFFORTS TO GET GODE'S CHARTER REVISED ON THIS POINT.

3. DEPARTMENT OFFICER URGED GUNTER TO TAKE ADVANTAGE OF OPENING OFFERED BY ABA AL-KHAYL TO COMMUNICATE IMMEDIATELY TO HIM AND POSSIBLY OTHER GODE CONTRIBUTORS THE CASE FOR IMMEDIATE CASH AID WITHOUT WAITING FOR ALL THE NECESSARY PROCEDURAL STEPS TO CREATE THE GODE. USG, THROUGH SECRETARY SIMON'S LETTERS, ALREADY HAD DONE WHAT IT COULD TO URGE GENEROUS BALANCE OF PAYMENTS SUPPORT FOR EGYPT EITHER THROUGH OR IN ADDITION TO GODE.

4. SEPTEL FOLLOWS ON ACTION PROPOSALS, INCLUDING LOAN GUARANTY PLAN. WE ARE PERPLEXED BY GOE INACTION ON IRANIAN REFINANCING GUARANTY PLAN BECAUSE A MAJOR REFINANCING OF COMMERCIAL DEBT FALLING DUE IN 1976 APPEARS TO BE CRITICAL TO EGYPT'S AVOIDING WHOLESale DEFAULT AND LOSS OF FUTURE CREDIT. IF GOE HAS CHOSEN TO SEEK REFINANCING GUARANTIES EXCLUSIVELY FROM GODE, WE SUGGEST AN IMMEDIATE REAPPRAISAL OF THE FEASIBILITY OF THIS APPROACH IN VIEW OF TIME REQUIRED TO ESTABLISH GODE AND AMOUNT OF PAID-IN CAPITAL WHICH GODE WOULD HAVE TO SET ASIDE TO CREATE GUARANTY FUND IN LIEU OF FULL-FAITH-AND-CREDIT GUARANTIES BY MEMBER GOVERNMENTS.

5. IBRD VP WAPENHANS INFORMED OFFICE OF U.S. EXECUTIVE DIRECTOR THAT HE HAS STARTED CANVASS OF PROSPECTIVE MEMBERS OF CONSULTATIVE GROUP FOR EGYPT AND RECEIVED POSITIVE RESPONSES FROM SAUDI, KUWAITI AND IRANIAN REPRESENTATIVES. HE EXPECTED THAT MCNAMARA'S INVITATION

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TO INTERESTED MEMBER GOVERNMENTS WOULD BE ISSUED THIS WEEK, AIMING AT INAUGURAL MEETING IN DECEMBER OR JANUARY, SOON AFTER EXPECTED RECEIPT OF COMPLETE EGYPTIAN FIVE YEAR PLAN. CG WOULD DEAL WITH BOTH IMMEDIATE BALANCE OF PAYMENTS SUPPORT AND LONG-TERM DEVELOPMENT AID COORDINATION, AS USG HAD PROPOSED. KISSINGER

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